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DEPT. OF ENERGY FOR U/S GARMAN, S. JOHNSON, T. CUTLER, A. SCHEINEMAN
DEPT OF COMMERCE FOR U/S F. LAVIN

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TAGS: [PREL](#) [PARM](#) [TSPL](#) [KNNP](#) [ETTC](#) [ENRG](#) [TRGY](#) [PGOV](#) [ECON](#)

BEXP, IN

SUBJECT: WILL FRANCE, RUSSIA REAP THE INITIAL COMMERCIAL BENEFITS OF
A U.S./INDIA CIVIL NUCLEAR AGREEMENT?

REF: Mumbai 1375

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Summary and Comment

11. (SBU) GE and Westinghouse fear that French and Russian companies may be the first to benefit from the commercial opportunities created by successful passage of the U.S./India civil nuclear initiative. The Nuclear Power Corp. of India (NPCIL) confirmed to us that the GOI has approved two new sites for nuclear power plants, each of which will house two foreign reactors. The four reactors will be the first in a series that the NPCIL hopes to import to meet its ambitious plan to create 40 gigawatts (GW) of generation capacity by 2020. NPCIL project director S.K. Agrawal told the visiting Commercial Counselor on September 29 that his company has yet to decide which foreign reactors to purchase for the two sites, yet we share the U.S. vendors' fears that France and Russia have a head start in the race for India's first two "nuclear parks" (reftel) housing modern foreign reactor technology. The French Consul General confirmed reports that Areva has already performed, at NPCIL's request, initial studies for one of the two sites, located in Maharashtra. The second site is immediately adjacent to the site in Tamil Nadu where two Russian VVER reactors are currently under construction. Westinghouse's point man for India told us that the Tamil Nadu site was specifically approved for

additional VVER reactors, and he doubted the NPCIL's claim that it would seriously contemplate the construction of differing reactor types at one site. Whatever facts are now being created on the ground, we believe that the NPCIL remains strongly interested in U.S. reactor technology, and will welcome as substantial a dialog with U.S. companies as is possible under current U.S. laws and regulations. At the same time, the NPCIL has an ambitious mandate and will take advantage of those commercial opportunities available to it. The NPCIL is already preparing for the opportunities offered by successful passage of the civil nuclear initiative, and may soon make long term decisions even before an agreement is finalized. The late November DOC trade mission will provide an opportunity to showcase U.S. civil nuclear technology to the NPCIL, and Mission India will work with Washington to ensure that the interaction remains well within current U.S. laws and regulations. At the same time, we feel that the USG must move forward to enable our companies to compete in the next stage of India's nuclear future. Otherwise we may have to watch bitterly as third countries become the first to benefit commercially from the environment that our diplomacy has created. End summary and comment.

GOI Approves Sites for Four Foreign Reactors

12. (SBU) S.K. Agrawal, director of projects at the Nuclear Power Corp. of India (NPCIL), told the visiting Commercial Counselor on September 29 that the GOI had recently approved two new sites for imported foreign reactors. One site is at Kudankulam in

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Tamil Nadu, where two Russian reactors are already under construction, and the other is at Jaitapur on the western Indian coast in southern Maharashtra. Agrawal said the NPCIL hopes to build two 1 gigawatt (GW) reactors at each site, using foreign technology.

13. (SBU) Agrawal confirmed that the four reactors will be the first that NPCIL hopes to import in the coming years to meet its ambitious expansion plans. The NPCIL needs six to eight foreign reactors to meet its older, pre-July 18 goal of 20 GW of nuclear generation capacity by 2020, Agrawal conceded. In its planning, the NPCIL had always assumed that India would some day get access to foreign nuclear technology, he said. The July 18, 2005 joint statement by President Bush and PM Singh was hence a windfall for the company, he added. A further expansion to 40 GW by 2020, set out by Prime Minister Singh shortly after July 18 apparently without in depth discussions with India's civil nuclear community, can only be met through the large scale import of more foreign reactors, Agrawal told us.

No Decisions Made On What Types of Reactors?

14. (SBU) Recalling NPCIL Chairman S.K. Jain's recent up-beat statement (reftel) that India hopes to establish several "nuclear parks," each using a different foreign technology, we asked Agrawal whether the NPCIL had already identified foreign reactors for the new sites. Agrawal denied that this was the case. No decision had been made regarding the technology at either site, he said. "As an engineer," Agrawal added, he would

prefer to have a uniform type of reactor at each site, as it would greatly ease construction and operation of the plants. Yet neither technical, economic nor other concerns prevented the NPCIL from selecting, say, American and French reactors at the same site, he emphasized.

French Already Involved at Jaitapur...

15. (SBU) Despite Agrawal's remarks we have reason to believe that the NPCIL is already contemplating French and Russian technology at each of the sites. In a discussion with the visiting Science Counselor and ConGen Mumbai, Pramod Joshi of GE Energy said that the French firm Areva was already present in Jaitapur and had done initial analysis on the site, a fact confirmed by Jean Charles Demarquis, the French Consul General, in a recent discussion with Pol/Econ chief. Areva had engineers in both Jaitapur and Mumbai who had provided input for the NPCIL's feasibility studies for the site, Demarquis said. In fact, he conceded, it was the NPCIL's Agrawal who had initially asked Areva to perform the preliminary work.

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...And Russian Technology Possibly Foreseen in Tamil Nadu

16. (SBU) Alexander V. Mantytsky, the Russian Consul General in Mumbai, told Pol/Econ chief on October 3 that the state-owned Russian reactor company Atomstroyexport, which has an office in Mumbai, was currently only involved in the construction of the two VVER reactors at Kudankulam in Tamil Nadu. Russia was not currently discussing further sales of reactors to India, he emphasized, and would not do so until the Nuclear Suppliers Group provided a new legal framework for doing so. However, Seoul-based Westinghouse Vice President Timothy Collier, whose portfolio includes India, told us on October 4 that the Kudankulam site had been specifically approved for additional VVER reactors. Collier doubted whether the NPCIL would seriously consider building generation blocks with U.S. or French reactors in immediate proximity to the two VVER reactors now under construction. From an economic and operations perspective it made no sense for the NPCIL to do so, Collier argued.

French, Russians Have a Head Start, U.S. Vendors Believe

17. (SBU) In earlier discussions, the NPCIL had mentioned that it hopes to get GOI permission for a third site as well, yet we have no indication that approval is anytime near, nor are we aware of any in-depth dialog that NPCIL maybe having with a U.S. vendor along the lines of the apparent discussion with Areva. GE's Joshi and Westinghouse's Collier told us separately that the French and Russian nuclear suppliers had long cultivated relationships with India that U.S. companies had purposely avoided to ensure compliance with U.S. non-proliferation laws. (Note: During Collier's last visit to Mumbai, the NPCIL gave him a car and driver as a courtesy so Collier could make a scheduled meeting at the U.S. Consulate. The driver, upon hearing the word "Consulate" took Collier straight to the

Russian Consulate and needed further guidance before he found the U.S. Consulate compound. End note) U.S. laws and regulations prevented them from conducting the types of substantive discussions that the French, and possibly the Russian, nuclear suppliers were currently having with the NPCIL, they both claimed. Because of the long planning times involved in any nuclear project, the NPCIL was now moving forward with the Russian and French vendors to ensure that they could act as soon as the NSG creates an enabling environment, both Joshi and Collier told us.

Liability and Commercial Risks

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¶8. (SBU) Both GE's Joshi and Westinghouse's Collier mentioned nuclear liability as the sine qua non that India needs to address before their companies could seriously contemplate entering the Indian market. They felt that the French and Russian firms were comfortable that their respective governments were willing to shoulder at least some of the liability risks of their reactors if needed to secure a sale to India. (Note: Jain told us earlier that India had assumed liability for the Kudankulam reactors now under construction in a bilateral agreement with Russia. End note.) Collier also said that both the French and Russian governments were also ready to underwrite the major commercial risks associated with the sale of reactors to India, such as payment and delivery risks.

NPCIL Eager to Meet DOC Delegation

¶9. (SBU) The NPCIL's Agrawal said his company was eager to meet with U.S. nuclear vendors during the DOC trade delegation in late November. Commercial Counselor and Agrawal agreed that the U.S. companies would meet with the Department of Atomic Energy, the NPCIL and with selected Indian companies that supply the NPCIL's construction activities. Commercial Counselor suggested that the Indian side brief the U.S. companies on the status of planned legislation that would limit the liability of foreign nuclear suppliers, and Agrawal said Indian companies would welcome a briefing on the current status of U.S. export licensing requirements towards India.

Comment

¶10. (SBU) It would be a bitter pill to swallow if French and Russian companies were the first to benefit from the enabling environment created by successful passage of our civil nuclear deal with India. To date, the absence of an aggressive U.S. commercial strategy towards the Indian nuclear market strengthened the credibility of the U.S. in the eyes of many Indian actors involved in the domestic debate over the nuclear deal, as it showed that commercial considerations were not the primary U.S. reason for pursuing the deal. Moving forward, however, the first fruits of a successful agreement may fall into the laps of third countries by default if the USG, acting in tandem with U.S. industry, fails to make clear to India that we expect U.S. companies to benefit from the first wave of

opportunities created by our diplomatic initiatives, assuming of course that U.S. firms are interested and able to compete. Our previous discussions with the NPCIL make us believe that the company is seriously interested in U.S. nuclear technology, and will welcome, at any time, as in-depth a discussion with our vendors as is possible under U.S. law and regulations. However, the NPCIL has an ambitious target to meet by 2020, and is already taking advantage of those opportunities for dialog now available to it. The NPCIL looks forward to interaction with U.S. companies during the upcoming DOC trade mission. Mission

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India will work with Washington to ensure that the interaction remains well within current U.S. laws and regulations. At the same time, we highlight the opportunity costs we incur as long as the current framework prevents U.S. companies from engaging in the type of dialog that is necessary if they are to compete in the next phase of India's nuclear future. End comment.

11. (U) Embassy New Delhi cleared this cable.
OWEN